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SUBJECT: VENEZUELA: BANKERS SEE SUFFICIENT OIL REVENUES TO
FUND CHAVEZ POLITICAL PROJECT IN NEAR TO MID-TERM

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) a
nd (d).

11. (C) SUMMARY. In an August 31 briefing, leading banker Gustavo Marturet and members of his economic research team updated the Ambassador on their perceptions of Venezuela's political and economic situation. Despite the recent downturn in the Venezuelan economy, the bank believes Venezuela will experience a moderate recession followed by a moderate recovery as world oil prices climb in 2010 due to an increase in non-OECD country oil demand. Most importantly, the Banco Mercantile team believes oil prices have already rebounded sufficiently and existing government reserves are high enough to give the government room to continue with the aggressive pursuit of its political project to which there will be no serious financial impediment. The hallmark of its economic policy making will be a drive to guarantee that it has sufficient funds with which to finance an expansionist social policy in advance of expected 2010 elections. END SUMMARY.

12. (C) The Ambassador met August 31 with Gustavo Marturet, the President of Banco Mercantile, Venezuela's second largest bank. The meeting began with a briefing on the political situation as perceived by bank planners as well as an update on the bank's 2009-2010 economic forecast.

POLITICAL ANALYSIS

13. (C) Bank planners began their analysis of the political situation facing the Chavez government with a statement of its weaknesses: rising conflict between the central government and state governments; increasing international isolation; growing labor conflict, particularly in government-owned and/or dominated industrial sectors; and the greater size of the government itself which will make it more difficult for Chavez to avoid responsibility for poor governance. Among the government's strengths, however, the bank team identified the clear victory of the February 2009 referendum; the perception that Chavez will be difficult to beat in upcoming elections; the continued internal cohesion of the government, i.e., the strength of the PSUV; growing state power which serves as a deterrent to political dissidence; as well as the continued disarray of the political opposition with its lack of effective leadership and inability to articulate an attractive vision in opposition to that of Chavez. (Note: The bank believes support for Chavez has dropped significantly, but that the opposition has failed to capitalize on their opportunities.)

14. (C) Given the recovery of oil prices and the use of accumulated public reserves, the Banco Mercantile team assesses that the Venezuelan government (GBRV) is "in a good position" because of steps it has taken to increase the personal and political costs of dissidence and the decreased risk of losing political control. In these circumstances, the bank team identified the most important goal of the GBRV as the re-election of Chavez. To further this goal they think the government will seek to attack the problems facing it (scarcity, inflation, corruption, etc.) by choosing to use methods that will yield medium term results but will not work long term, i.e., such as nationalizing new agricultural sectors in the face of food scarcity or tinkering with foreign exchange controls rather than eliminating them. The bank planners believe the government will continue to increase the pace of creation of a legal structure to support its socialist vision as well as one which amplifies the political advantages of the government. Efforts to increase indoctrination and to gain control over political/social/economic groups not already under control of the government, including labor, business and other groups, press, educational establishments, strategic economic sectors, the church, and NGO's, will also continue. The yardstick for measuring the success of their policy prescriptions will be progress toward maintaining control of the legislature in 2010 and re-electing the president in 2012. Actual success in addressing the problems they want to be seen as combating will be a secondary consideration.

15. (C) Internationally, the GBRV will seek to consolidate new blocs (such as ALBA) as well as to solidify relationships Chavez has built with like-minded leaders, according to Bank

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planners. Chavez will seek to keep his confrontation with the U.S. and Colombia in the public eye to use them to fire up his political base. On the economic front, the Banco Mercantile team points to continued "statization" of the economy. Economic policy making will also continue to be subordinate to political objectives with a short term horizon for policy making contingent on oil prices. The planners posit that the GBRV will continue to take measures to confront any economic threat to its base -- with the costs associated with such measures to be distributed asymmetrically in favor of the Chavista base. Most importantly, however, the GBRV will seek to guarantee that it has sufficient funds with which to finance an expansionist social policy in 2010 in advance of expected National Assembly and mayoral elections.

ECONOMIC ANALYSIS

16. (C) After suffering a sharp oil shock in 2008 (a 45 percent drop in prices), the price of the Venezuelan basket of crudes has averaged \$50.90 so far in 2009 (in contrast to the 2008 average of \$86.49). Banco Mercantile now projects that the average for 2009 will climb slightly to \$52.90 and that the average for 2010 will be \$63.20, prices similar to the 2007 average. While acknowledging the recently announced 2.4 percent second quarter contraction of the Venezuelan economy, Banco Mercantile planners believe Venezuela will experience a moderate recession followed by a moderate recovery as world oil prices climb in 2010 due to an increase in non-OECD country demand. Most importantly, they noted, the government believes the effects of the recession will be transitory and thus they will not seek to introduce any serious package of economic measures. While there will likely be an "important" budget deficit, Banco Mercantile believes it can be financed with little difficulty. Bank planners believe that the GBRV will soften the effect of the recession by restrictions on CADIVI-controlled foreign exchange disbursements, import restrictions, and "important" disbursements from public savings which the bank assesses still stands at some \$60 billion.

COMMENT

17. (C) Although Banco Mercantile's analysis of the Venezuelan economic situation (and particularly the \$60 billion it calculates for total government reserves) is somewhat more positive than that of other local analysts, most observers here now share their belief that economic problems will not contribute to a serious political challenge for President Chavez in the near to early mid-term. Given the government's significant political and economic control and ability to repress selectively actors who might challenge this control, the GBRV will likely continue to accelerate its agenda and particularly its pursuit of the election of a strong Chavista majority in the 2010 legislative elections.

DUDDY